

Defense Logistics

Defense Contract Management Command



COST ACCOUNTING STANDARDS February 29, 2000

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COST ACCOUNTING STANDARDS (CAS) OVERVIEW

- **CAS Board Review Panel**
- **Defense Authorization Act--FY2000**
- **CASB Interim Rule**
- **Changes in Cost Accounting
Practices**
- **Proposed Alternative Rule**
- **FAR Part 30 Proposed Rule**



COST ACCOUNTING STANDARDS

CAS BOARD REVIEW PANEL



CAS BOARD REVIEW PANEL

- **Congress requested GAO form Panel**
 - **Review viability of CAS Board mission in light of recent acquisition reforms**
 - **Include government, industry, accounting**



CAS BOARD REVIEW PANEL

➤ Co-chairs:

- **Dr. Jacques Gansler, Under Secretary of Defense for Acquisition & Technology**
- **Mr. Nelson Gibbs, Vice President & Controller, Northrop Grumman**
- **Mr. James Hinchman, Principal Assistant Comptroller General, GAO**



CAS BOARD REVIEW PANEL

- **Major General Timothy Malishenko, USAF**
- **Rear Admiral Leonard Vincent, USN**
- **Mr. Michael Thibault, DCAA**
- **Ms. Karen Wilson, Allied Signal**
- **Mr. Larry Grow, Motorola Systems**
- **Mr. Jack Hughes, Consultant**
- **Dr. Louis Rosen, Ernst & Young**



CAS BOARD REVIEW PANEL

- **Information and advice received**
 - **Testimony at public meetings from 25 officials from Government, industry, and private accounting**



CAS BOARD REVIEW PANEL

- **Recommendations**
 - **Keep current \$500,000 contract threshold**
 - **Apply CAS after receipt of \$7.5M contract**
 - **Raise full coverage threshold to \$50M**
 - **Exempt FFP -- no certified cost/pricing data**
 - **Waiver authority to contracting agencies**
 - **Review of Standards**
 - **Remove CASB from OFPP**

Final Report issued to Congress April 1999



COST ACCOUNTING STANDARDS

NATIONAL DEFENSE AUTHORIZATION ACT FOR 2000 CAS LEGISLATION



DEFENSE AUTHORIZATION ACT

- **Revised applicability thresholds**
- **Added exemption for FFPs**
- **Waiver authority**
- **Study of types of CAS coverage**



DEFENSE AUTHORIZATION ACT

- **Applicability thresholds--**
 - **Individual contract--\$500,000
(current)**
 - **Trigger contract application at \$7.5M**
 - **Raise full coverage from \$25M to
\$50M**



DEFENSE AUTHORIZATION ACT

- **Exemptions to CAS--**
 - **firm-fixed-price contracts awarded on basis of adequate price competition without submission of certified cost or pricing data**
 - **contracts less than \$7.5M if, at award, segment has not been awarded a CAS-covered contract of \$7.5M or more**
 - **FEHB contracts (FY2000 only)**



DEFENSE AUTHORIZATION ACT

- **Waiver authority**
 - **Head of executive agency may waive CAS for a contract less than \$15M if segment to perform work is primarily engaged in sale of commercial items and would not otherwise be subject to CAS**



DEFENSE AUTHORIZATION ACT

- **Waiver authority**
 - **Head of executive agency may also waive CAS for a contract under exceptional circumstances, when necessary to meet needs of agency.**



DEFENSE AUTHORIZATION ACT

- **Waiver authority**
 - **FAR to include**
 - **Criteria for selecting official to be delegated waiver authority**
 - **Specific circumstances under which waiver may be granted**
 - **Waivers granted shall be reported to CASB**



DEFENSE AUTHORIZATION ACT

- **Impact of revised thresholds (new vs. old)**
 - **Full coverage**
 - **189 segments vs. 280 segments**
 - **\$66.5B vs. \$69.8B**
 - **Modified coverage**
 - **127 segments vs. 308 segments**
 - **\$3.7B vs. \$2.2B (increased coverage)**



DEFENSE AUTHORIZATION ACT

- **Combined Impact (new vs. old)**
 - **318 segments vs. 588 segments**
 - **46 percent decrease**
 - **\$70.2B vs. \$72.0B**
 - **2.5 percent decrease**



DEFENSE AUTHORIZATION ACT

- **Study types of CAS coverage**
 - **Review CAS coverage to determine if current three types CAS-coverage are necessary--full, modified, FAR**



COST ACCOUNTING STANDARDS

CAS BOARD INTERIM RULE

Published February 7, 2000



INTERIM RULE IMPLEMENTATION

- **Full coverage**
 - **Based on receipt of \$50M or more CAS-covered awards in prior accounting period**
 - **Any change only affects new contracts**



INTERIM RULE IMPLEMENTATION

- **Modified coverage**
 - **If <\$50M CAS-covered awards in prior period**
 - **If not currently performing \$7.5M CAS-covered contract**
 - **Contracts \$500,000 or more--no CAS**
 - **If currently performing \$7.5M CAS-covered contract**
 - **Contracts \$500,000 or more--CAS**



INTERIM RULE IMPLEMENTATION

- **Current contracts subject to CAS remain subject to full or modified coverage**
- **Current Disclosure Statement remains in effect through completion of current CAS-covered contracts**



INTERIM RULE IMPLEMENTATION

- **Districts in process of identifying effect on current segments subject to CAS including unresolved noncompliances**
- **Process to be completed end of February**



INTERIM RULE IMPLEMENTATION

- **Exemption for FFP contracts**
 - **Current Exemption:** All FFPs without submission of any cost data.
 - **Review Panel:** All FFPs without submission of certified cost or pricing data.
 - **DoD Legislative Proposal:** All FFPs without submission of certified cost or pricing data.



INTERIM RULE IMPLEMENTATION

- **Exemption for FFP contracts**
 - **Authorization Act: FFPs with adequate price competition and without submission of certified cost or pricing data.**
 - **CASB Interim Rule: Only FFPs with adequate price competition and without submission of certified cost or pricing data.**
 - **Current exemption deleted.**



INTERIM RULE IMPLEMENTATION

If no certified cost or pricing data because:

	<u>Current</u>	<u>New</u>
Commercial Item/Law or Regulation	No	No
Adequate Price Competition		
If no cost data obtained	No	No
If any cost data obtained	Yes	No
Waiver--If no cost data obtained		No
Yes*		
--If any cost data obtained	Yes	Yes*

***Review Panel recommendation and DoD Legislative proposal would not have required CAS coverage.**



INTERIM RULE IMPLEMENTATION

- **Waiver conflict due to**
 - **CASB replacing current (b)(15) exemption with new exemption instead of adding new exemption to current CAS**
 - **Can be resolved by waiving CAS-- must be waived by Head of Executive Agency**



INTERIM RULE IMPLEMENTATION

- **Effective April 2, 2000**
- **Comments to CASB by April 7, 2000**
 - **CAS Committee tasking**
 - **Develop DoD comments to CASB**



COST ACCOUNTING STANDARDS

CHANGES IN COST ACCOUNTING PRACTICES

**SNPRM-II
August 20, 1999**



SNPRM-II

➤ **History**

- **April 9, 1993--SDP**
- **April 25, 1995--ANPRM**
- **September 18, 1996--NPRM**
- **July 14, 1997--SNPRM**
- **August 20, 1999--SNPRM-II**



SNPRM-II

➤ Issues

- Significantly expands definition of change**
- Addition of CAS Administration procedures to CAS rules and regulations**
- Overly detailed, prescriptive, and lengthy**
 - 43 Federal Register pages**



SNPRM-II

- **Definition of a change**
 - **“...any alteration in a cost accounting practice...including...:**
 - **Pool combinations.**
 - **Pool split-outs.**
 - **Functional transfers.”**



SNPRM-II

➤ CAS Administration

➤ Cost Impact Process

➤ Offset process only applied to contracts that are of the same contract type”

➤ Detailed ACO requirements

➤ Detailed awarding agency requirements



SNPRM-II

- **CASB Benchmarking Survey**
 - **Industry declined participation**
- **CASB Open Public Meeting**
 - **Majority of testimony opposed rule**



SNPRM-II

- **Significant DoD concerns**
 - **Broad definition**
 - **Administrative nightmare**
 - **Cost impact process**
 - **Oppose adding detailed administrative requirements to CAS**
 - **Delete in its entirety**
- **Proposed alternative**



COST ACCOUNTING STANDARDS

PROPOSED ALTERNATIVE



ALTERNATIVE

- **Public meetings jointly sponsored by DDP and NCMA to discuss OSD proposed alternative**
- **Forwarded to CASB mid January**
 - **Industry endorsed major issue**
 - **Some issues remain**



ALTERNATIVE

- **Additional public meetings jointly sponsored by DDP and NCMA**
- **Obtain additional input**
- **OSD revised alternative to be submitted to CAS Board for their consideration by end of February**



COST ACCOUNTING STANDARDS

FAR PART 30 PROPOSED REVISION



FAR PART 30 Proposed Revision

- **CAS Committee developed proposed revision**
- **Cost impact process**
- **Cognizant Federal Agency Official (CFAO) responsibilities**
- **Awarding agency responsibilities**



FAR PART 30 Proposed Revision

- **Resolution of cost impacts**
 - **Adjust contract/contracts**
 - **Offset between contracts/segments**
 - **Alternate methods**
 - **Coordinate with affected contracting officers before determining method of resolution**



FAR PART 30 Proposed Revision

- **Revision approved by DAR Council**
- **Will be published as proposed rule in Federal Register after CAAC approval**
- **Inclusion of cost impact process in FAR gives procurement control of process**



POSSIBLE FUTURE EFFORT

- **Comprehensive review of all 19 Cost Accounting Standards**
- **Recommended by Panel but not included in legislation**